

State of Arizona  
House of Representatives  
Forty-eighth Legislature  
First Regular Session  
2007

# HOUSE BILL 2189

AN ACT

REPEALING TITLE 20, CHAPTER 3, ARTICLE 8, ARIZONA REVISED STATUTES; AMENDING TITLE 20, CHAPTER 3, ARIZONA REVISED STATUTES, BY ADDING A NEW ARTICLE 8; RELATING TO LIFE INSURANCE COMPANIES AND FRATERNAL BENEFIT SOCIETIES.

(TEXT OF BILL BEGINS ON NEXT PAGE)

1 Be it enacted by the Legislature of the State of Arizona:

2 Section 1. Repeal

3 Title 20, chapter 3, article 8, Arizona Revised Statutes, is repealed.

4 Sec. 2. Title 20, chapter 3, Arizona Revised Statutes, is amended by  
5 adding a new article 8, to read:

6 ARTICLE 8. ACTUARIAL OPINION AND MEMORANDUM REQUIREMENTS

7 20-696. Scope of article

8 A. THIS ARTICLE APPLIES TO ALL LIFE INSURANCE COMPANIES AND FRATERNAL  
9 BENEFIT SOCIETIES THAT ARE DOING BUSINESS IN THIS STATE OR THAT ARE  
10 AUTHORIZED TO REINSURE LIFE INSURANCE, ANNUITIES OR ACCIDENT AND HEALTH  
11 INSURANCE BUSINESS IN THIS STATE.

12 B. THIS ARTICLE APPLIES TO ALL ANNUAL STATEMENTS THAT ARE FILED WITH  
13 THE DIRECTOR AFTER THE EFFECTIVE DATE OF THIS ARTICLE. ALL INSURERS SHALL  
14 FILE THE FOLLOWING WITH THE DIRECTOR EACH YEAR:

15 1. A STATEMENT OF OPINION ON THE ADEQUACY OF THE RESERVES AND RELATED  
16 ACTUARIAL ITEMS BASED ON AN ASSET ADEQUACY ANALYSIS THAT IS CONDUCTED  
17 PURSUANT TO SECTION 20-696.03.

18 2. A MEMORANDUM IN SUPPORT OF THE OPINION PURSUANT TO SECTION  
19 20-696.04.

20 C. IF A FOREIGN COMPANY IS REQUIRED TO SUBMIT A STATEMENT OF ACTUARIAL  
21 OPINION, THE DIRECTOR MAY ACCEPT THE STATEMENT OF ACTUARIAL OPINION THAT IS  
22 FILED BY THE COMPANY WITH THE INSURANCE SUPERVISORY REGULATOR OF ANOTHER  
23 STATE IF THE DIRECTOR DETERMINES THAT THE OPINION REASONABLY MEETS THE  
24 REQUIREMENTS APPLICABLE TO A COMPANY DOMICILED IN THIS STATE.

25 D. THE DIRECTOR, BY ORDER, MAY ADOPT METHODS OF ACTUARIAL ANALYSIS AND  
26 ACTUARIAL ASSUMPTIONS THAT ARE NECESSARY FOR AN ACCEPTABLE OPINION AND  
27 MEMORANDUM CONSISTENT WITH THIS ARTICLE.

28 20-696.01. Definitions

29 IN THIS ARTICLE, UNLESS THE CONTEXT OTHERWISE REQUIRES:

30 1. "ACTUARIAL OPINION" MEANS THE OPINION OF AN APPOINTED ACTUARY  
31 REGARDING THE ADEQUACY OF THE RESERVES AND RELATED ACTUARIAL ITEMS THAT IS  
32 BASED ON AN ASSET ADEQUACY ANALYSIS CONDUCTED PURSUANT TO SECTION 20-696.03  
33 AND THAT IS BASED ON PRESENTLY ACCEPTED ACTUARIAL STANDARDS OF PRACTICE.

34 2. "ACTUARIAL STANDARDS BOARD" MEANS THE BOARD THAT IS ESTABLISHED BY  
35 THE AMERICAN ACADEMY OF ACTUARIES TO DEVELOP AND PROMULGATE ACTUARIAL  
36 STANDARDS OF PRACTICE.

37 3. "ANNUAL STATEMENT" MEANS THE STATEMENT THAT AN INSURER ANNUALLY  
38 FILES WITH THE DIRECTOR PURSUANT TO SECTION 20-223.

39 4. "APPOINTED ACTUARY" MEANS AN INDIVIDUAL WHO IS APPOINTED OR  
40 RETAINED PURSUANT TO SECTION 20-696.02, SUBSECTION D TO PROVIDE THE ACTUARIAL  
41 OPINION AND SUPPORTING MEMORANDUM PRESCRIBED BY SECTION 20-510, SUBSECTION C.

42 5. "ASSET ADEQUACY ANALYSIS" MEANS AN ANALYSIS THAT MEETS THE  
43 STANDARDS AND OTHER REQUIREMENTS PRESCRIBED PURSUANT TO SECTION 20-696.02,  
44 SUBSECTION E.



1 C. NOTWITHSTANDING SUBSECTION B, PARAGRAPH 4 OF THIS SECTION, FOR GOOD  
2 CAUSE SHOWN THE DIRECTOR MAY CLASSIFY AN INDIVIDUAL AS A QUALIFIED ACTUARY.

3 D. AN APPOINTED ACTUARY IS A QUALIFIED ACTUARY WHO IS APPOINTED OR  
4 RETAINED TO PREPARE THE STATEMENT OF ACTUARIAL OPINION THAT IS REQUIRED BY  
5 THIS ARTICLE, EITHER DIRECTLY BY OR BY THE AUTHORITY OF THE BOARD OF  
6 DIRECTORS THROUGH AN EXECUTIVE OFFICER OF THE COMPANY WHO SHALL NOT BE THE  
7 QUALIFIED ACTUARY. THE COMPANY SHALL GIVE THE DIRECTOR TIMELY WRITTEN NOTICE  
8 OF THE NAME AND TITLE OF THE APPOINTED ACTUARY, THE NAME OF THE FIRM IF THE  
9 ACTUARY IS A CONSULTING ACTUARY, AND THE MANNER OF APPOINTMENT OR RETENTION  
10 OF EACH PERSON WHO IS APPOINTED OR RETAINED BY THE COMPANY AS AN APPOINTED  
11 ACTUARY, AND SHALL STATE THAT THE PERSON MEETS THE REQUIREMENTS OF SUBSECTION  
12 B OF THIS SECTION. AFTER THE COMPANY FURNISHES THIS NOTICE, NO FURTHER  
13 NOTICE IS REQUIRED WITH RESPECT TO THIS PERSON, EXCEPT THAT THE COMPANY SHALL  
14 GIVE THE DIRECTOR TIMELY WRITTEN NOTICE IF THE ACTUARY CEASES TO BE APPOINTED  
15 OR RETAINED AS AN APPOINTED ACTUARY OR FAILS TO MEET THE REQUIREMENTS  
16 PRESCRIBED IN SUBSECTION B OF THIS SECTION. IF A PERSON WHO IS APPOINTED OR  
17 RETAINED AS AN APPOINTED ACTUARY REPLACES A PREVIOUSLY APPOINTED ACTUARY, THE  
18 NOTICE SHALL STATE THIS AND SHALL GIVE THE REASONS FOR THE REPLACEMENT.

19 E. THE ASSET ADEQUACY ANALYSIS REQUIRED BY THIS ARTICLE SHALL:

20 1. CONFORM TO THE ACTUARIAL STANDARDS OF PRACTICE AS PROMULGATED BY  
21 THE ACTUARIAL STANDARDS BOARD IN EFFECT ON THE EFFECTIVE DATE OF THIS ACT AND  
22 TO ANY ADDITIONAL STANDARDS PURSUANT TO THIS ARTICLE THAT FORM THE BASIS OF  
23 THE STATEMENT OF ACTUARIAL OPINION PURSUANT TO THIS ARTICLE.

24 2. BE BASED ON METHODS OF ANALYSIS AS ARE DEEMED APPROPRIATE FOR THESE  
25 PURPOSES BY THE ACTUARIAL STANDARDS BOARD.

26 F. LIABILITIES SHALL BE COVERED IN THE ACTUARIAL OPINION AS FOLLOWS:

27 1. PURSUANT TO SECTION 20-510, SUBSECTION C, THE STATEMENT OF  
28 ACTUARIAL OPINION APPLIES TO ALL IN FORCE BUSINESS ON THE STATEMENT DATE,  
29 WHETHER DIRECTLY ISSUED OR ASSUMED AND REGARDLESS OF WHEN OR WHERE ISSUED.

30 2. IF THE APPOINTED ACTUARY DETERMINES AS THE RESULT OF AN ASSET  
31 ADEQUACY ANALYSIS THAT A RESERVE SHOULD BE HELD IN ADDITION TO THE AGGREGATE  
32 RESERVE HELD BY THE COMPANY AND CALCULATED PURSUANT TO THE METHODS PRESCRIBED  
33 IN SECTION 20-510, THE COMPANY SHALL ESTABLISH THE ADDITIONAL RESERVE.

34 3. ADDITIONAL RESERVES THAT ARE ESTABLISHED UNDER PARAGRAPH 2 OF THIS  
35 SUBSECTION AND THAT ARE DEEMED UNNECESSARY IN SUBSEQUENT YEARS MAY BE  
36 RELEASED. ANY AMOUNTS RELEASED SHALL BE DISCLOSED IN THE ACTUARIAL OPINION  
37 FOR THE APPLICABLE YEAR. THE RELEASE OF THESE RESERVES IS NOT DEEMED AN  
38 ADOPTION OF A LOWER STANDARD OF VALUATION.

39 20-696.03. Statement of actuarial opinion based on an asset  
40 adequacy analysis

41 A. THE STATEMENT OF ACTUARIAL OPINION SUBMITTED PURSUANT TO THIS  
42 SECTION CONSISTS OF:

43 1. A PARAGRAPH IDENTIFYING THE APPOINTED ACTUARY AND THE ACTUARY'S  
44 QUALIFICATIONS PURSUANT TO SECTION 20-696.02, SUBSECTION B.

1           2. A SCOPE PARAGRAPH THAT IDENTIFIES THE SUBJECTS ON WHICH AN OPINION  
2 IS TO BE EXPRESSED, THAT DESCRIBES THE SCOPE OF THE APPOINTED ACTUARY'S WORK,  
3 INCLUDING A TABLE OF RESERVES AND RELATED ACTUARIAL ITEMS THAT HAVE BEEN  
4 ANALYZED FOR ASSET ADEQUACY AND THE METHOD OF ANALYSIS, AND THAT IDENTIFIES  
5 THE RESERVES AND RELATED ACTUARIAL ITEMS COVERED BY THE OPINION THAT HAVE NOT  
6 BEEN ANALYZED FOR ASSET ADEQUACY.

7           3. A RELIANCE PARAGRAPH THAT DESCRIBES THOSE AREAS, IF ANY, IN WHICH  
8 THE APPOINTED ACTUARY WHO ISSUES THE OPINION PURSUANT TO THIS SECTION HAS  
9 DEFERRED TO OTHER EXPERTS TO DEVELOP DATA, PROCEDURES OR ASSUMPTIONS AND THAT  
10 IS SUPPORTED BY A STATEMENT OF EACH EXPERT IN THE FORM PRESCRIBED BY THE  
11 DIRECTOR.

12           4. AN OPINION PARAGRAPH EXPRESSING THE APPOINTED ACTUARY'S OPINION  
13 WITH RESPECT TO THE ADEQUACY OF THE SUPPORTING ASSETS TO MATURE THE  
14 LIABILITIES.

15           5. ONE OR MORE ADDITIONAL PARAGRAPHS AS REQUIRED IN INDIVIDUAL COMPANY  
16 CASES AS FOLLOWS:

17           (a) THE APPOINTED ACTUARY CONSIDERS IT NECESSARY TO STATE A  
18 QUALIFICATION OF THE APPOINTED ACTUARY'S OPINION.

19           (b) THE APPOINTED ACTUARY MUST DISCLOSE AN INCONSISTENCY IN THE METHOD  
20 OF ANALYSIS OR BASIS OF ASSET ALLOCATION USED AT THE PRIOR OPINION DATE WITH  
21 THAT USED FOR THIS OPINION.

22           (c) THE APPOINTED ACTUARY MUST DISCLOSE WHETHER ADDITIONAL RESERVES AS  
23 OF THE PRIOR OPINION DATE ARE RELEASED AS OF THIS OPINION DATE AND THE EXTENT  
24 OF THE RELEASE.

25           (d) THE APPOINTED ACTUARY CHOOSES TO ADD A PARAGRAPH BRIEFLY  
26 DESCRIBING THE ASSUMPTIONS THAT FORM THE BASIS FOR THE ACTUARIAL OPINION.

27           B. IF THE APPOINTED ACTUARY IS UNABLE TO FORM AN OPINION, THE  
28 APPOINTED ACTUARY SHALL REFUSE TO ISSUE A STATEMENT OF ACTUARIAL OPINION. IF  
29 THE APPOINTED ACTUARY'S OPINION IS ADVERSE OR QUALIFIED, THE APPOINTED  
30 ACTUARY SHALL ISSUE AN ADVERSE OR QUALIFIED ACTUARIAL OPINION EXPLICITLY  
31 STATING THE REASONS FOR THE OPINION.

32           C. IF THE APPOINTED ACTUARY RELIES ON THE CERTIFICATION OF OTHERS ON  
33 MATTERS CONCERNING THE ACCURACY OR COMPLETENESS OF ANY DATA UNDERLYING THE  
34 ACTUARIAL OPINION OR THE APPROPRIATENESS OF ANY OTHER INFORMATION USED BY THE  
35 APPOINTED ACTUARY IN FORMING THE ACTUARIAL OPINION, THE ACTUARIAL OPINION  
36 SHOULD INDICATE THE PERSONS THE ACTUARY IS RELYING ON AND A PRECISE  
37 IDENTIFICATION OF THE ITEMS THAT ARE SUBJECT TO RELIANCE. IN ADDITION, THE  
38 PERSONS ON WHOM THE APPOINTED ACTUARY RELIES SHALL PROVIDE A CERTIFICATION  
39 THAT PRECISELY IDENTIFIES THE ITEMS ON WHICH THE PERSON IS PROVIDING  
40 INFORMATION AND A STATEMENT AS TO THE ACCURACY, COMPLETENESS OR  
41 REASONABLENESS, AS APPLICABLE, OF THE ITEMS. THIS CERTIFICATION SHALL  
42 INCLUDE THE SIGNATURE, TITLE, COMPANY, ADDRESS AND TELEPHONE NUMBER OF THE  
43 PERSON WHO IS RENDERING THE CERTIFICATION AND THE DATE ON WHICH IT IS SIGNED.



1 (a) PRODUCT DESCRIPTIONS, INCLUDING MARKET DESCRIPTION, UNDERWRITING  
2 AND OTHER ASPECTS OF A RISK PROFILE AND THE SPECIFIC RISKS THE APPOINTED  
3 ACTUARY DEEMS SIGNIFICANT.

4 (b) SOURCE OF LIABILITY IN FORCE.

5 (c) RESERVE METHOD AND BASIS.

6 (d) INVESTMENT RESERVES.

7 (e) REINSURANCE ARRANGEMENTS.

8 (f) IDENTIFICATION OF ANY EXPLICIT OR IMPLIED GUARANTEES MADE BY THE  
9 GENERAL ACCOUNT IN SUPPORT OF BENEFITS PROVIDED THROUGH A SEPARATE ACCOUNT OR  
10 UNDER A SEPARATE ACCOUNT POLICY OR CONTRACT AND THE METHODS USED BY THE  
11 APPOINTED ACTUARY TO PROVIDE FOR THE GUARANTEES IN THE ASSET ADEQUACY  
12 ANALYSIS.

13 (g) DOCUMENTATION OF ASSUMPTIONS, INCLUDING DOCUMENTATION TO ALLOW AN  
14 ACTUARY REVIEWING THE ACTUARIAL MEMORANDUM TO FORM A CONCLUSION ABOUT THE  
15 REASONABLENESS OF THE ASSUMPTIONS, TO TEST RESERVES FOR THE FOLLOWING:

16 (i) BASE LAPSE RATES AND EXCESS LAPSE RATES.

17 (ii) INTEREST CREDITING RATE STRATEGY.

18 (iii) MORTALITY.

19 (iv) POLICYHOLDER DIVIDEND STRATEGY.

20 (v) COMPETITOR OR MARKET INTEREST RATE.

21 (vi) ANNUITIZATION RATES.

22 (vii) COMMISSIONS AND EXPENSES.

23 (viii) MORBIDITY.

24 2. FOR ASSETS:

25 (a) PORTFOLIO DESCRIPTIONS, INCLUDING A RISK PROFILE THAT DISCLOSES  
26 THE QUALITY, DISTRIBUTION AND TYPES OF ASSETS.

27 (b) INVESTMENT AND DISINVESTMENT ASSUMPTIONS.

28 (c) SOURCE OF ASSET DATA.

29 (d) ASSET VALUATION BASES.

30 (e) DOCUMENTATION OF ASSUMPTIONS, INCLUDING DOCUMENTATION TO ALLOW AN  
31 ACTUARY REVIEWING THE ACTUARIAL MEMORANDUM TO FORM A CONCLUSION ABOUT THE  
32 REASONABLENESS OF THE ASSUMPTIONS, MADE FOR:

33 (i) DEFAULT COSTS.

34 (ii) BOND CALL FUNCTION.

35 (iii) MORTGAGE PREPAYMENT FUNCTION.

36 (iv) DETERMINING MARKET VALUE FOR ASSETS SOLD DUE TO DISINVESTMENT  
37 STRATEGY.

38 (v) DETERMINING YIELD ON ASSETS ACQUIRED THROUGH THE INVESTMENT  
39 STRATEGY.

40 3. FOR THE ANALYSIS BASIS:

41 (a) METHODOLOGY.

42 (b) RATIONALE FOR INCLUSION OR EXCLUSION OF DIFFERENT BLOCKS OF  
43 BUSINESS AND HOW PERTINENT RISKS WERE ANALYZED.

44 (c) RATIONALE FOR DEGREE OF RIGOR IN ANALYZING DIFFERENT BLOCKS OF  
45 BUSINESS.

1 (d) CRITERIA FOR DETERMINING ASSET ADEQUACY.

2 (e) IMPACT OF FEDERAL INCOME TAXES AND THE METHOD OF TREATING  
3 REINSURANCE IN THE ASSET ADEQUACY ANALYSIS.

4 4. A SUMMARY OF MATERIAL CHANGES IN METHODS, PROCEDURES OR ASSUMPTIONS  
5 FROM A PRIOR YEAR'S ASSET ADEQUACY ANALYSIS.

6 5. A SUMMARY OF RESULTS.

7 6. CONCLUSIONS.

8 H. THE REGULATORY ASSET ADEQUACY ISSUES SUMMARY SHALL INCLUDE:

9 1. DESCRIPTIONS OF THE SCENARIOS TESTED, INCLUDING WHETHER THOSE  
10 SCENARIOS ARE STOCHASTIC OR DETERMINISTIC, AND THE SENSITIVITY TESTING DONE  
11 RELATIVE TO THOSE SCENARIOS. IF NEGATIVE ENDING SURPLUS RESULTS UNDER  
12 CERTAIN TESTS IN THE AGGREGATE, THE APPOINTED ACTUARY SHALL DESCRIBE THOSE  
13 TESTS AND THE AMOUNT OF ADDITIONAL RESERVE AS OF THE VALUATION DATE THAT, IF  
14 HELD, WOULD ELIMINATE THE NEGATIVE AGGREGATE SURPLUS VALUES. ENDING SURPLUS  
15 VALUES SHALL BE DETERMINED EITHER BY EXTENDING THE PROJECTION PERIOD UNTIL  
16 THE IN FORCE AND ASSOCIATED ASSETS AND LIABILITIES AT THE END OF THE  
17 PROJECTION PERIOD ARE IMMATERIAL OR BY ADJUSTING THE SURPLUS AMOUNT AT THE  
18 END OF THE PROJECTION PERIOD BY AN AMOUNT THAT APPROPRIATELY ESTIMATES THE  
19 VALUE THAT CAN REASONABLY BE EXPECTED TO ARISE FROM THE ASSETS AND  
20 LIABILITIES REMAINING IN FORCE.

21 2. THE EXTENT TO WHICH THE APPOINTED ACTUARY USES ASSUMPTIONS IN THE  
22 ASSET ADEQUACY ANALYSIS THAT ARE MATERIALLY DIFFERENT THAN THE ASSUMPTIONS  
23 USED IN THE PREVIOUS ASSET ADEQUACY ANALYSIS.

24 3. THE AMOUNT OF RESERVES AND THE IDENTITY OF THE PRODUCT LINES THAT  
25 HAD BEEN SUBJECTED TO ASSET ADEQUACY ANALYSIS IN THE PRIOR OPINION BUT THAT  
26 WERE NOT SUBJECT TO ANALYSIS FOR THE CURRENT OPINION.

27 4. COMMENTS ON ANY INTERIM RESULTS THAT MAY BE OF SIGNIFICANT CONCERN  
28 TO THE APPOINTED ACTUARY.

29 5. THE METHODS USED BY THE APPOINTED ACTUARY TO RECOGNIZE THE IMPACT  
30 OF REINSURANCE ON THE COMPANY'S CASH FLOWS, INCLUDING BOTH ASSETS AND  
31 LIABILITIES, UNDER EACH OF THE SCENARIOS TESTED.

32 6. THE EXTENT TO WHICH THE APPOINTED ACTUARY IS SATISFIED THAT ALL  
33 OPTIONS, WHETHER EXPLICIT OR EMBEDDED, IN ANY ASSET OR LIABILITY AND  
34 EQUITY-LIKE FEATURES IN ANY INVESTMENTS ARE APPROPRIATELY CONSIDERED IN THE  
35 ASSET ADEQUACY ANALYSIS.

36 7. THE NAME OF THE COMPANY FOR WHICH THE REGULATORY ASSET ADEQUACY  
37 ISSUES SUMMARY IS BEING SUPPLIED.

38 8. THE SIGNATURE OF THE APPOINTED ACTUARY AND THE DATE OF THE  
39 SIGNATURE.

40 I. THE MEMORANDUM SHALL INCLUDE THE FOLLOWING STATEMENT:

41 "ACTUARIAL METHODS, CONSIDERATIONS AND ANALYSES USED IN THE  
42 PREPARATION OF THIS MEMORANDUM CONFORM TO THE APPROPRIATE  
43 ACTUARIAL STANDARDS OF PRACTICE AS PROMULGATED BY THE ACTUARIAL  
44 STANDARDS BOARD THAT FORM THE BASIS FOR THIS MEMORANDUM."

1           J. AN APPROPRIATE ALLOCATION OF ASSETS IN THE AMOUNT OF THE INTEREST  
2 MAINTENANCE RESERVE WHETHER POSITIVE OR NEGATIVE, SHALL BE USED IN ANY ASSET  
3 ADEQUACY ANALYSIS. ANALYSIS OF RISKS REGARDING ASSET DEFAULT MAY INCLUDE AN  
4 APPROPRIATE ALLOCATION OF ASSETS SUPPORTING THE ASSET VALUATION RESERVE.  
5 THESE ASSET VALUATION RESERVE ASSETS MAY NOT BE APPLIED FOR ANY OTHER RISKS  
6 WITH RESPECT TO RESERVE ADEQUACY. ANALYSIS OF THESE AND OTHER RISKS MAY  
7 INCLUDE ASSETS SUPPORTING OTHER MANDATORY OR VOLUNTARY RESERVES AVAILABLE TO  
8 THE EXTENT NOT USED FOR RISK ANALYSIS AND RESERVE SUPPORT.

9           K. THE AMOUNT OF THE ASSETS USED FOR THE ASSET VALUATION RESERVE SHALL  
10 BE DISCLOSED IN THE TABLE OF RESERVES AND LIABILITIES OF THE OPINION AND IN  
11 THE MEMORANDUM. THE METHOD USED FOR SELECTING PARTICULAR ASSETS OR ALLOCATED  
12 PORTIONS OF ASSETS SHALL BE DISCLOSED IN THE MEMORANDUM.

13           L. THE APPOINTED ACTUARY SHALL RETAIN ON FILE, FOR AT LEAST SEVEN  
14 YEARS, SUFFICIENT DOCUMENTATION TO DETERMINE THE PROCEDURES FOLLOWED, THE  
15 ANALYSES PERFORMED, THE BASES FOR ASSUMPTIONS AND THE RESULTS OBTAINED.